

CITY OF GAYLORD
GAYLORD, MICHIGAN
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF GAYLORD	County OTSEGO
Audit Date 6/30/05	Opinion Date 11/16/05	Date Accountant Report Submitted to State 11/16/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

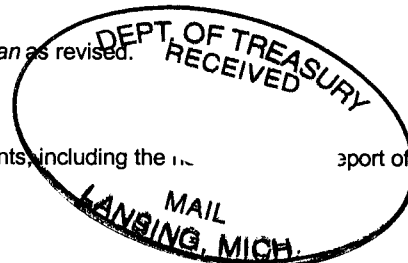
We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).



We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) KESKINE COOK MILLER & ALEXANDER, LLP			
Street Address 100 WEST FIRST STREET	City GAYLORD	State MI	ZIP 49735
Accountant Signature		Date 11/16/05	

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CITY OFFICIALS

Mayor

Gladys Solokis

Council

Joseph Wambold – Ward 1
Todd Sharrard – Ward 2
Gerald Campbell – Ward 3
Esther Nelson – At large
Patrick Mankowski – At large
Steven Johnson – At large

City Manager

Joseph Duff

City Clerk

Rebecca Curtis

City Treasurer

David Duffield

City Assessor

Deborah Dunham

Chief of Police

John Jenkins

DDA Director

Sherrie Schuster

DPW Superintendent

Keith Roberts

WWTP Superintendent

Dale LaBelle



Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.
Jeffrey B. Cook, C.P.A.
Richard W. Miller, C.P.A.
Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

Independent Auditor's Report

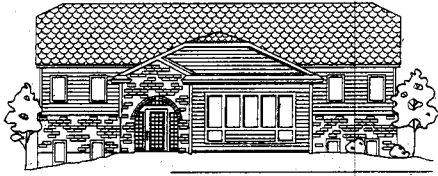
To the City Council
City of Gaylord, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gaylord, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gaylord, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gaylord, Michigan, as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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To the City Council
City of Gaylord, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gaylord, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Keskin Cook Miller & Alexander LLP

Keskin, Cook, Miller & Alexander LLP

November 16, 2005

City of Gaylord
225 W. Main Street, Room #109
Gaylord, MI 49735-1393

Management's Discussion and Analysis

Our discussion and analysis of the City of Gaylord, Michigan's (the "City") financial performance provide an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

Although the taxable value of property was approximately \$176,000,000 for 2005, which was an increase of 9% over the taxable value of the property in the previous year, a general fund balance decrease of \$115,000 still resulted. City Council appropriated expenses in excess of \$222,000 over budgeted revenues; therefore, the fund balance decrease of \$115,000 is less than originally anticipated.

During fiscal year ended June 30, 2005, the City completed the construction of a pathway project on North Ohio/Fairview Road, was in the midst of a major renovation project at two City parks, Doumas Park and Freel Park, and the design of a new facility to serve as a new City Hall. These projects were in addition to the completion of the 2004 Street Improvement Project and preparations to begin the 2005 Street Improvement/Northeast Infrastructure Project, reconstruction of a portion of Dickerson and South Townline Roads, and the construction of a new water well and storm basin.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

The City as a Whole

The following table shows; in a condensed format, the net assets as of June 30, 2005 (in thousands of dollars):

TABLE 1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Current assets	\$ 5,305	\$ 2,154	\$ 7,459
Noncurrent assets	<u>10,997</u>	<u>19,625</u>	<u>30,622</u>
Total assets	16,302	21,779	38,081
Liabilities			
Current liabilities	764	468	1,232
Long-term liabilities	<u>5,175</u>	<u>7,959</u>	<u>13,131</u>
Total liabilities	5,936	8,427	14,363
Net Assets			
Invested in capital assets –			
Net of related debt	5,164	11,410	16,574
Restricted	4,024	743	4,024
Unrestricted	<u>1,178</u>	<u>1,942</u>	<u>3,120</u>
Total net assets	<u>\$ 10,366</u>	<u>\$ 13,352</u>	<u>\$ 23,718</u>

The City's combined net assets increased 3% from a year ago – increasing from \$23,360,975 to \$23,718,336.

During the fiscal year, asset additions included \$779,727 in street improvements, \$250,842 in water and sewer improvements and \$17,243 in improvements on City owned property. The majority of the street improvements, \$567,327, were constructed in conjunction with the annual street improvement project. Annually the City constructs street and related infrastructure improvements, as detailed in this document in the Municipal Streets Fund, funded by voter-approved millage since 1994. Voters renewed this millage levy for an additional 10-year period in 2003. Revenues generated by the millage are restricted in use for street and related infrastructure improvements.

During fiscal year ending June 30, 2005, and including water and sewer improvements, approximately \$813,761 was constructed as part of the annual street improvement project and design and bidding services for the 2005 street improvement project began. Also during fiscal year 2004/05, the construction of the North Ohio/Fairview Pathway project was completed. Of the total project cost of \$174,291, \$95,793 was funded by the State of Michigan through a Transportation Enhancement Grant, proceeds which were not received until after the end of the fiscal year, although reflected as a receivable in the financial statements.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations – increased by approximately \$207,000 for the governmental activities. This represents an increase of approximately 23%. The current level of unrestricted net assets for our governmental activities stands at \$1,177,823. This increase can be attributed mostly to the increases in revenue while expenses were below budget expectations.

The following table shows the changes in the net assets during the year ended June 30, 2004 (in thousands of dollars):

TABLE 2

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenue			
Program revenue:			
Charges for services	\$ 73	\$ 1,497	\$ 1,570
Operating grants & Contributions	570	-	570
Capital grants & Contributions	5	-	5
General Revenue:			
Property taxes	2,854	513	3,367
State-shared revenue	360	-	360
Unrestricted investment Earnings	97	21	118
Transfers & other Revenue	<u>701</u>	<u>203</u>	<u>904</u>
Total revenue	4,660	2,234	6,894

TABLE 2 (CONTINUED)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Program Expenses			
General government	907	-	907
Public safety	990	-	990
Public works	2,198	-	2,198
Recreation and culture	153	-	153
Interest on long-term debt	224	-	224
Water and sewer	<u>-</u>	<u>2,064</u>	<u>2,064</u>
Total program expenses	<u>4,472</u>	<u>2,064</u>	<u>6,536</u>
Change in Net Assets	<u>\$ 188</u>	<u>\$ 170</u>	<u>\$ 358</u>

There have been no significant changes in general operations of the City in the last year. Services provided to City residents and businesses were maintained without interruption or loss of service. As in the private sector, the cost of utilities and supplies increase annually. Although the level of staffing did not increase, personnel costs continue to increase annually. Health insurance costs increased approximately 8% during the fiscal year, which although is still considered "healthy", was markedly lower than the 16% increase experienced during the previous fiscal year and the lowest percentage increase realized in a number of years. Property and liability insurance costs decreased approximately \$10,000 or 11% compared to the same costs during the previous fiscal year. After experiencing a reduction in State Shared Revenues in previous years, revenues stayed approximately at the same level during this fiscal year as they were in the last. An income source lost by the City in recent years is the amount of interest revenue generated by cash and investments. In General Fund \$60,000 in interest revenue was generated during the 2002/03 fiscal year – which is in excess of 80% higher than revenue generated during the past 2 fiscal years. On a more positive note, due to both commercial and multi-family residential growth and development in the City, the total taxable value for fiscal year ending June 30, 2005 was \$176,152,082, an increase of approximately 8.7% over last year's taxable value of \$161,959,438. As stated previously, in November 2003 voters renewed the voter-approved millage levy for street and related infrastructure improvements for an additional 10 years. Revenues generated by this millage did and will continue to finance improvements to streets and infrastructure, relieving other revenue sources from this financial obligation. This also insures that our street and utility systems continue to be maintained and are able to service our residents in a safe and effective manner and able to provide the very important foundation necessary to support the growth and development that has been

experienced in the City. Also, in order to continually provide the best possible services to its residents, the City Council aggressively seeks revenue from outside sources to assist in funding capital improvements. During this fiscal year approximately \$95,000 from outside sources was used to fund a portion of public improvements and during the next fiscal year approximately \$1.8-million will be received to fund a portion of street and infrastructure costs, a new water well and park renovations.

Governmental Activities

The City's total governmental revenues decreased by approximately \$1,150,000. The decrease, which represents 20%, was due primarily to the monies received in the prior year for the construction of the Edelweiss Village and Industrial Park. Expenses decreased by about \$357,000 during the year.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. Currently utility service is provided to approximately 1,800 customers, who are billed for this service on a monthly basis. The City is the sole owner of all distribution lines, storage tanks and the wastewater treatment plant. In 1999, an expansion to the original wastewater treatment plant, originally constructed in 1986, was completed. Both the original plant and its expansion were financed by bond proceeds. A portion of the bond issue used to finance the plant expansion was refinanced after the close of the fiscal year and during the fall of 2005. A voter-approved millage levy and utility rates finance the payment of these debts. During the fiscal year, the City continued the installation of an automated radio meter reading system. Currently 741 customers are serviced by the system. Installation of radio read equipment will continue over the next number of years until all City customer's meters are read through the radio read system. It is anticipated that over a period of years the system will "pay for itself" through reduction in personnel and contractual service expenses associated with reading meters. In order to generate revenues for future expansions to the wastewater and water systems, the City assesses a "capital fee" to expansions of existing and new buildings that are serviced by water and/or sewer. Capital fees are restricted in use and can be utilized only when authorized by the City Council. A total of \$53,000 was generated in Capital Fees during the fiscal year. It was reported in the last Management Discussion & Analysis report for fiscal year ending June 30, 2004 that in 2004, business-type activities experienced a slight loss in water sales and sewer revenues. Because of this City staff conducted an extensive internal evaluation of both our water and sewer systems during the fiscal year. Based upon the conclusions of our study, a professional consultant was hired to verify our findings as well as to conduct their own independent evaluation. Changes were made to customer billings where verifiable errors were found which has resulted in an increase in revenues generated by the system. Revenues generated by billings have increased 10% from those generated in the previous fiscal year. A portion of the increase can be attributed to growth and development but some of the increase is also related to changes made in the billing system. Also in early 2005

a Utility Rate Study was conducted. It was found that although revenues had increased since the time of the last rate increase in 1999, expenses had also increased at a greater rate than predicted at the time. The rate structure authorized by City Council in 1999 was anticipated to generate enough revenues to support the systems for a period of five years. Because we were at the end of the five-year period and due to the dramatic increase in expenses, a new rate schedule was adopted in the fall of 2005, which will become effective January 1, 2005. Although the new rates do not affect the financial information presented in this document, they will affect all future financial statements of the City. It should also be noted that during this fiscal year the Water and Sewer Funds received \$250,842 in public improvements financed by the Municipal Street Fund.

The City's Funds

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The General Fund pays for most of the city's governmental services and is used to budget all revenues and expenditures not specifically accounted for in other funds. The General Fund receives a wide variety of revenues, such as general property taxes, license fees, fines, penalties, permit fees, state-shared revenues, state and federal grant proceeds, charges for services and other revenues, which are used to fund a wide variety of services. City general administration, Police Department, Department of Public Works, cemetery, parks and recreation, and the parking system, as well as promotional activities and fire protection are the major services funded by the General Fund. The most significant activities in the General Fund are those classified as public safety, which includes the Police Department and fire protection and those activities classified as public works. Public safety incurred expenses totaling \$989,506 and public works incurred expenses totaling \$1,886,672. Included in General Fund beginning with this fiscal year is the major renovation of Freel and Doumas Parks. The project which has a proposed construction cost of approximately \$455,000, began in May 2005 and will conclude in the next fiscal year, will be funded in part by a State of Michigan Natural Resources Trust Fund grant in an amount anticipated to be approximately \$318,000.

The remainder of the project will be financed by income generated by gas wells located on City property. Also included in General Fund for this audit period is consultation service expenses for the design of a new facility to serve as a City Hall.

Major and Local Street Funds record the receipt of revenues and expenses relating to the construction and maintenance of the City street system, including the maintenance of state trunklines within the corporate limits. The largest source of revenue in each fund is from state sources and direct contributions from the General Fund. Major and Local Streets Funds do not fund the majority of street construction activities; rather the Municipal Street or other Capital Improvement Funds finance construction activities.

As the City receives an average snowfall of 150" each season, snow removal expenses historically are the largest single expense classification in each fund. During the fiscal year the North Ohio/Fairview Pathway Project was substantially completed. The \$174,291 cost of this project was expensed to Major Street. A portion of the project was financed by a Michigan Department of Transportation Enhancement Grant in the amount of \$95,793.

The Municipal Streets Fund records revenues generated by the voter-approved millage levy and records expenses relating to the annual street and related infrastructure construction projects. The millage levy, originally approved in 1994 for 10 years, was renewed in November 2003 for an additional 10 years.

Otsego Club, Old 27 South, DDA Pavilion, Mankowski Road, Edelweiss Village Shopping Center and Industrial Park Funds record special assessment and other revenues as well as debt retirement activities relating to each of the related capital improvement projects.

General Fund Budgetary Highlights

At the end of the fiscal year ended June 30, 2005, actual expenses were approximately \$1.019 million less than budgeted expenses. This can be largely attributed to \$966,481 budgeted for park improvements, with only \$94,313 expensed by the close of the fiscal year. This was due to the timing of the Freel/Doumas Park Project and the delay of proposed improvements to Elkview Park. Revenues were also \$929,344 less than those budgeted. This can also be largely attributed to lack of revenue budgeted to be received from outside sources for both the Freel/Doumas Park Project and proposed Elkview Park Project. Because the City had applied for state grants to fund the renovation of all three parks, the anticipated revenues and expenses were included in the budget for the fiscal year. It should be noted that the expenses for park renovations in the fiscal year are related to the Doumas/Freel Park Project that began in May 2005. It should also be noted that the reduction in fund balance to \$907,232 from the previous year's fund balance of \$1,022,664 was \$105,980 less than anticipated at the time the budget for fiscal year ending June 30, 2005 was adopted.

Capital Asset and Debt Administration

As in previous years, during the fiscal year the City invested in a broad range of capital assets, including streets, water and sewer mains, sidewalks, equipment, street lighting, improvements to the City's park system and the design of a new facility to serve as a City Hall. Improvements were funded primarily by revenue generated by street and infrastructure millage and state grants. The City also continues to reduce its long-term debt and has refinanced issues where it is possible to obtain lower interest costs. In January 2005 the debt issue for the reconstruction of South Wisconsin Avenue was retired.

Economic Factors and Next Year's Budgets and Rate

The City continues to experience strong growth in our tax base and resulting revenue, without an increase in millage levy. The commercial and multi-family development that has continued to provide an increase in taxable value on an annual basis is anticipated to continue. Even though development continues to occur, because of the impact of Proposal A, the City needs to continue to monitor its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions. With the financial assistance of the Economic Development Administration, the City was able to complete the development of a 105-acre new Gaylord Industrial Park in August 2004. The financial assistance received, along with the creation of an industrial development district, will provide affordable opportunities and incentives for new business development, creation of jobs and an increase in commercial tax base. Since the Park's completion, a five-acre site has been sold and developed. Approximately \$1.8 million in funds from outside sources have been committed to the City to assist in Capital Improvements in the upcoming fiscal year. Utility rates have been reviewed and a new Rate Schedule has been adopted, enabling the utility systems to upgrade and maintain their systems in a safe and efficient manner.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customer, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Joseph Duff
City Manager

**CITY OF GAYLORD
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
Assets				
Cash & Equivalents	\$ 1,465,158	\$ 769,195	\$ 2,234,353	\$ 148,702
Receivables	4,113,133	222,224	4,335,357	-
Inventories	12,243	-	12,243	-
Internal Balances	(412,559)	412,559	-	-
Due From Component Unit	194,031	-	194,031	-
Investment in Joint Ventures	297,286	-	297,286	-
Restricted Investments	-	749,816	749,816	-
Capital Assets	10,699,659	19,625,343	30,325,002	-
Total Assets	16,368,951	21,779,137	38,148,088	148,702
Liabilities				
Accounts Payable	101,500	57,697	159,197	70,277
Accrued Interest Payable	56,900	100,550	157,450	-
Due to Primary Government	-	-	-	194,031
Long-term Liabilities:				
Due within One Year:				
Current Portion Long-Term Debt	605,665	310,000	915,665	-
Due in More than One Year:				
Bonds Payable	4,930,000	7,905,000	12,835,000	-
Compensated Absences	241,761	54,039	295,800	-
Total Liabilities	5,935,826	8,427,286	14,363,112	264,308
Net Assets				
Investment in Capital Assets -Net of Related Debt	5,163,994	11,410,343	16,574,337	-
Restricted For:				
Streets & Highways	124,128	-	124,128	-
Debt Service	492,975	-	492,975	-
Special Assessments	3,202,671	-	3,202,671	-
Cemetery Perpetual Care	204,895	-	204,895	-
Business Type Activities	-	749,816	749,816	-
Unrestricted	1,244,462	1,191,692	2,436,154	(115,606)
Net Assets	\$ 10,433,125	\$ 13,351,851	\$ 23,784,976	\$ (115,606)

See accompanying notes to the financial statements

**CITY OF GAYLORD
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business Activities	Total	
Primary Government:								
General Government	\$ 834,271	\$ 18,537	\$ -	\$ -	\$ (815,734)	\$ -	\$ (815,734)	\$ -
Public Safety	989,506	14,087	-	-	(975,419)	-	(975,419)	-
Public Works	1,886,672	50,601	569,659	5,000	(1,261,412)	-	(1,261,412)	-
Recreation & Culture	153,257	-	-	-	(153,257)	-	(153,257)	-
Debt Service	223,769	-	-	-	(223,769)	-	(223,769)	-
Water & Sewer	4,087,475	83,225	569,659	5,000	(3,429,591)	-	(3,429,591)	-
	1,988,032	1,496,993	-	-	-	(491,039)	(491,039)	-
Total Primary Government	\$ 6,075,507	\$ 1,580,218	\$ 569,659	\$ 5,000	(3,429,591)	(491,039)	(3,920,630)	-
Downtown Dev Authority	\$ 555,003	\$ -	\$ -	\$ 513,680	-	-	-	(41,323)
General Revenues:								
Property Taxes								
State Shared Revenue					2,853,863	512,678	3,366,541	-
Interest Income					360,328	-	360,328	-
Change in Equity of Joint Venture					96,474	21,650	118,124	9,059
Miscellaneous					79,665	-	79,665	-
					164,163	89,862	254,025	4,481
Transfers					129,610	36,338	165,948	(165,948)
Change in Net Assets					254,512	169,489	424,001	(193,731)
Net Assets - July 1					10,178,613	13,182,362	23,360,975	78,125
Net Assets (Deficit) - June 30					\$ 10,433,125	\$ 13,351,851	\$ 23,784,976	\$ (115,606)

See accompanying notes to the financial statements

**CITY OF GAYLORD
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

		Special Revenue Funds			Debt	
		GENERAL	MAJOR STREETS	LOCAL STREETS	MUNICIPAL STREETS	HIDDEN VALLEY
ASSETS						
Cash and Equivalents	\$	897,849	\$ 2,881	\$ 2,299	\$ 9,586	\$ 218,299
Accounts Receivable		127,956	223,999	13,385	70,922	490,000
Inventories		12,243	-	-	-	-
Due from Other Funds		82,705	19,910	7,475	50,000	-
Due From Component Unit		194,031	-	-	-	-
Total Assets		1,314,784	246,790	23,159	130,508	708,299
LIABILITIES AND FUND EQUITY						
Liabilities						
Accounts Payable		67,085	4,927	894	8,818	-
Due to Other Funds		340,467	140,000	-	120,000	300
Deferred Revenue		-	-	-	-	490,000
Total Liabilities		407,552	144,927	894	128,818	490,300
Fund Equity						
Fund Balance (Deficit)		907,232	101,863	22,265	1,690	217,999
Total Liabilities and Fund Equity		\$ 1,314,784	\$ 246,790	\$ 23,159	\$ 130,508	\$ 708,299

Service Funds		Capital Project Fund		
OLD 27	DDA STREETSCAPE	EDELWEISS	NONMAJOR FUNDS	TOTAL
\$ 236,462	\$ -	\$ 4,455	\$ 45,879	\$ 1,417,710
631,551	1,125,000	933,100	407,220	4,023,133
-	-	-	-	12,243
-	-	-	5,483	165,573
-	-	-	-	194,031
868,013	1,125,000	937,555	458,582	5,812,690
-	-	-	-	81,724
631,551	1,125,000	933,100	498,341	1,099,108
631,551	1,125,000	933,100	402,220	3,581,871
236,462	-	4,455	900,561	4,762,703
236,462	-	4,455	(441,979)	1,049,987
\$ 868,013	\$ 1,125,000	\$ 937,555	\$ 458,582	\$ 5,812,690

See accompanying Notes to the Financial Statements

**CITY OF GAYLORD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

Total Fund Balances - Governmental Funds (Page 14) \$ 1,049,987

**Amounts reported for governmental activities in the Statement of Net Assets
(Page 12) are different because:**

Capital assets used in governmental activities are not financial resources and are
not reported in the governmental fund balance sheets 10,250,017

Investments in joint ventures are not reported in the fund statements 297,286

Receivables reported in the fund statements reflect only current financial resources
and do not reflect long-term amounts 90,000

Special assessment receivables are long-term and are not reflected in the fund
statements 3,581,871

Accrued Interest on long-term liabilities are not included in the fund statements (56,900)

Bonds and notes payable are not reported in the fund statements (5,520,000)

Compensated absences are not reflected in the fund statements (241,761)

Internal service funds are included as governmental activities 982,625

Total Net Assets - Governmental Activities (Page 12) \$ 10,433,125

See accompanying notes to the financial statements

CITY OF GAYLORD
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

Special Revenue Funds

	GENERAL	MAJOR STREETS	LOCAL STREETS	MUNICIPAL STREETS
Revenue:				
Property Taxes	\$ 1,947,207	\$ -	\$ -	\$ 695,021
Licenses and Permits	2,140	-	-	-
State Shared / Intergovernmental	350,368	497,539	82,080	-
Cemetery	18,537	-	-	-
Interest Income	13,897	-	-	-
Police and Parking	69,402	-	-	-
Special Assessments	-	-	-	-
Other	113,464	-	-	-
Total Revenue	2,515,015	497,539	82,080	695,021
Expenditures:				
General Government	870,421	-	-	-
Public Safety	989,506	-	-	-
Public Works	414,612	450,111	168,516	752,189
Recreation & Culture	153,257	-	-	-
Debt Service	-	-	-	-
Total Expenditures	2,427,796	450,111	168,516	752,189
Other Financing Sources (Uses):				
Contribution from Other Funds	108,007	-	100,000	110,000
Contribution to Other Funds	(310,658)	(46,312)	-	-
Total Other Financing Sources (Uses)	(202,651)	(46,312)	100,000	110,000
Net Change in Fund Balances	(115,432)	1,116	13,564	52,832
Fund Balance (Deficit) - July 1	1,022,664	100,747	8,701	(51,142)
Fund Balance (Deficit) - June 30	\$ 907,232	\$ 101,863	\$ 22,265	\$ 1,690

Debt Service Funds		Capital Project Fund		NONMAJOR FUNDS	TOTAL
HIDDEN VALLEY	OLD 27	DDA STREETSCAPE	EDELWEISS		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,642,228
-	-	-	-	-	2,140
-	-	-	-	-	929,987
-	-	-	-	-	18,537
3,925	2,250	71,488	463	1,612	93,635
-	-	-	-	-	69,402
104,488	140,420	150,000	126,293	4,444	525,645
-	-	-	-	5,000	118,464
108,413	142,670	221,488	126,756	11,056	4,400,038
-	-	-	-	-	870,421
-	-	-	-	-	989,506
-	-	-	-	(43,537)	1,741,891
-	-	-	-	-	153,257
104,787	172,025	221,488	75,530	254,939	828,769
104,787	172,025	221,488	75,530	211,402	4,583,844
-	-	-	-	201,961	519,968
-	-	-	-	(33,388)	(390,358)
-	-	-	-	168,573	129,610
3,626	(29,355)	-	51,226	(31,773)	(54,196)
214,373	265,817	-	(46,771)	(410,206)	1,104,183
\$ 217,999	\$ 236,462	\$ -	\$ 4,455	\$ (441,979)	\$ 1,049,987

See accompanying Notes to the Financial Statements

**CITY OF GAYLORD
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

Net change in fund balances - total governmental funds **\$ (54,196)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities; these costs are allocated over the useful lives of the assets using depreciation

Capital Outlay Purchases	779,727
Current Year Depreciation	(609,516)

Change in the investment in joint ventures is reported in the statement of activities, not in the governmental funds	79,665
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Special assessment revenues are recorded in the statement of activities when the assessment is levied; they are not reported in the funds until collected or collectible within 60 days of year end	(355,791)
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Property tax revenues are reported in the statement of activities when levied; they are reported in the funds when collected	(33,272)
--	----------

Interest expense is recorded as paid in the fund statements; it is reported as accrued in the statement of activities	(16,192)
---	----------

Payments of bond principal is an expenditure in the governmental fund statements but reduces long-term debt in the government wide statements	605,000
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Increases in accumulated employee benefits and other liabilities are recorded as incurred in the statement of activities and as paid in the governmental funds	(11,838)
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Internal service fund balance changes are included as governmental activities	(129,075)
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Change in Net Assets of Governmental Activities	<u>\$ 254,512</u>
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See accompanying notes to the financial statements

**CITY OF GAYLORD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005**

	ENTERPRISE FUNDS			INTERNAL SERVICE
	WATER	SEWER	TOTAL	
ASSETS				
CURRENT ASSETS				
Cash and Equivalents	\$ 184,960	\$ 584,234	\$ 769,194	\$ 47,448
Accounts Receivable	54,159	168,065	222,224	-
Due from Other Funds	400,000	245,000	645,000	520,976
Restricted Cash	276,902	472,914	749,816	-
Total Current Assets	916,021	1,470,213	2,386,234	568,424
CAPITAL ASSETS, NET	2,703,200	16,922,143	19,625,343	449,642
Total Assets	3,619,221	18,392,356	22,011,577	1,018,066
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	14,454	43,243	57,697	19,776
Due to Other Funds	50,550	181,891	232,441	-
Accrued Interest Payable	-	100,550	100,550	-
Current Portion Long-term Debt	-	310,000	310,000	15,665
Total Current Liabilities	65,004	635,684	700,688	35,441
NONCURRENT LIABILITIES				
Bonds and Notes Payable	-	7,905,000	7,905,000	-
Compensated Absences	13,409	40,629	54,038	-
Total Liabilities	78,413	8,581,313	8,659,726	35,441
NET ASSETS				
Investment in Capital Assets - Net of Related Debt	2,703,200	8,707,143	11,410,343	433,977
Restricted	276,902	472,914	749,816	-
Unrestricted	560,706	630,986	1,191,692	548,648
Total Net Assets	\$ 3,540,808	\$ 9,811,043	\$ 13,351,851	\$ 982,625

See accompanying notes to the financial statements

CITY OF GAYLORD
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	ENTERPRISE FUNDS			INTERNAL SERVICE
	WATER	SEWER	TOTAL	
OPERATING REVENUE				
Charges for Services	\$ 457,712	\$ 1,039,281	\$ 1,496,993	\$ -
Equipment Rental and Other	68,410	956	69,366	376,746
Total Operating Revenue	526,122	1,040,237	1,566,359	376,746
OPERATING EXPENSES				
Personnel Services	183,386	388,320	571,706	131,973
Utilities	38,799	105,847	144,646	-
Depreciation	64,083	559,672	623,755	164,530
Supplies and Repairs	36,856	6,394	43,250	172,527
Contracted Services	8,408	11,402	19,810	-
Equipment Rental	39,570	36,797	76,367	21
Miscellaneous	6,912	35,853	42,765	39,609
Total Operating Expenses	378,014	1,144,285	1,522,299	508,660
Operating Income (Loss)	148,108	(104,048)	44,060	(131,914)
NON-OPERATING REVENUE (EXPENSE)				
Interest on Investments	7,983	13,668	21,651	2,839
Interest Expense	-	(445,238)	(445,238)	-
Property Taxes	-	512,678	512,678	-
Income (Loss) Before Other Financing Sources	156,091	(22,940)	133,151	(129,075)
Other Financing Sources (Uses):				
Transfers In (Out)	66,338	(30,000)	36,338	-
Change in Net Assets	222,429	(52,940)	169,489	(129,075)
NET ASSETS - JULY 1	3,318,379	9,863,983	13,182,362	1,111,700
NET ASSETS - JUNE 30	\$ 3,540,808	\$ 9,811,043	\$ 13,351,851	\$ 982,625

See accompanying notes to the financial statements.

**CITY OF GAYLORD
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2005**

	<u>Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	
Cash Flows from Operating Activities				
Receipts from customers	523,067	1,050,446	1,573,513	
Payments to suppliers	(106,033)	(98,087)	(204,120)	(276,338)
Payments to employees	(183,386)	(388,320)	(571,706)	(131,973)
Internal activity	(125,128)	(37,876)	(163,004)	169,169
Net cash provided (used) by operating activities	<u>108,520</u>	<u>526,163</u>	<u>634,683</u>	<u>(239,142)</u>
Cash Flows from Capital and Related Financing Activities				
Collection of property taxes	-	512,678	512,678	-
Purchase of capital assets	(100,156)	(183,879)	(284,035)	(132,730)
Principal and interest paid on debt	-	(732,015)	(732,015)	(45,026)
Net cash provided (used) by capital and related financing activities	<u>(100,156)</u>	<u>(403,216)</u>	<u>(503,372)</u>	<u>(177,756)</u>
Cash Flows from Investing Activities				
Interest received on investments	<u>7,983</u>	<u>13,668</u>	<u>21,651</u>	<u>2,839</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>16,347</u>	<u>136,615</u>	<u>152,962</u>	<u>(414,059)</u>
Cash and Cash Equivalents - July 1	<u>348,653</u>	<u>920,533</u>	<u>1,269,186</u>	<u>461,507</u>
Cash and Cash Equivalents - June 30	<u>461,862</u>	<u>1,057,148</u>	<u>1,519,010</u>	<u>47,448</u>
Statement of Net Assets Classification of Cash and Cash Equivalents				
Cash and Equivalents	184,960	584,234	769,194	47,448
Restricted Cash	<u>276,902</u>	<u>472,914</u>	<u>749,816</u>	-
Total Cash and Equivalents	<u>461,862</u>	<u>1,057,148</u>	<u>1,519,010</u>	<u>47,448</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	148,108	(104,048)	44,060	(131,914)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	64,083	559,672	623,755	164,530
Changes in assets and liabilities:				
Receivables	(3,055)	10,209	7,154	-
Due from other funds	(85,558)	28,921	(56,637)	(207,277)
Accounts payable	(15,058)	27,540	12,482	(64,481)
Accrued and other liabilities	-	3,869	3,869	-
Net cash provided (used) by operating activities	<u>108,520</u>	<u>526,163</u>	<u>634,683</u>	<u>(239,142)</u>

See accompanying notes to the financial statements

**CITY OF GAYLORD
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2005**

	Tax Collection Fund
ASSETS	
Cash & Equivalents	\$ 12,374
	<u> </u>
LIABILITIES	
Due to General Fund	\$ 12,374
	<u> </u>

See accompanying notes to the financial statements

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Gaylord, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Gaylord, Michigan.

Reporting Entity

The City of Gaylord, Michigan is governed by an elected seven-member council. The accompanying financial statements present the city and its component unit. The discretely presented component unit is reported in a separate column in the government wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Unit

The Downtown Development Authority (DDA) is reported within the component unit column in the government-wide financial statements to emphasize that it is legally separate from the City. The DDA was created to analyze the impact of economic changes and growth in the downtown district. The DDA's governing body, which consists of 13 individuals, is appointed by the mayor. In addition, the DDA's budget is subject to approval by the City Council. Upon dissolution of the DDA's, its assets revert to the city.

Jointly Governed Organizations

Otsego County Fire Board – In 1977, City entered into a joint venture with several townships in Otsego County to create the Otsego County Fire Board. The purpose of this venture is to obtain adequate fire protection for the covered area. The agreement calls for the Otsego County Fire Board to prepare an operating budget and to bill each member their share of the expenses based on a formula that includes property valuation and population. The Otsego County Fire Board is governed by a group composed of 13 members, two from each Township and two from the city and one at large. A chairman is appointed from within the 13 members to preside over the meetings. Several assets, such as motor vehicles, are not in the Otsego County Fire Board's name, but are in the name of a member. The members of this venture have, however, delegated authority for the operation for the department and maintenance of the assets to the 13-member governing body. The City's share of expenses is 26 percent. The City's investment in the Otsego County Fire Board is \$297,286, as recorded on the statement of net assets. Complete financial statements can be obtained at P.O. Box 954, Gaylord, Michigan, 49734.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Jointly Governed Organizations (Continued)

Otsego County Joint Building Authority – The Otsego County Joint Building Authority was created in 1966 by the County of Otsego and the City as a funding vehicle for the construction of buildings to serve the two governmental units. It also operated and maintained the building for the units, charging annual maintenance fees. The City's share of assets, liabilities, equity, revenues, and expenses total 16 percent. The Joint Building Authority ceased operations as of October 31, 2004. All assets were transferred to the County of Otsego. The City's share is \$7,111 and is recorded as a receivable from the County. Complete financial statements can be obtained at P.O. Box 954, Gaylord, Michigan 49735.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the City is reported separately from its legally separate component unit, for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considered revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-share revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures relating to compensated absences, and claims and judgements are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund – The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from property taxes, state-shared revenue, and other sources.

Major Streets Special Revenue Fund – The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Local Streets Special Revenue Fund – The Locals Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Municipal Streets Special Revenue Fund – The Municipal Streets Fund accounts for the resources from a property tax levy restricted for the improvements of streets and related infrastructure.

Hidden Valley Debt Service Fund – The Hidden Valley Fund accounts for the resources of special assessment proceeds that are used for the annual payment of principal, interest, and expenses in connection with certain long-term debt.

Old 27 South Debt Service Fund – The Old 27 South Fund accounts for the resources of special assessment proceeds that are used for the annual payment of principal, interest, and expenses in connection with certain long-term debt.

DDA Streetscape Debt Service Fund – The DDA Streetscape Fund Accounts for the resources of the special assessment proceeds from the DDA that are used to pay the debt payments of the DDA Streetscape.

Edelweiss Shopping Center Debt Service Fund – The Edelweiss Shopping Center Debt Service Fund accounts for the resources of special assessment proceeds that are used for the annual payment of principal, interest, and expenses in connection with certain long-term debt.

Edelweiss Shopping Center Capital Projects Fund – The Edelweiss Shopping Center Capital Projects Fund accounts for the development of capital facilities for the Edelweiss Shopping Center.

Industrial Park Development Fund – The industrial Park Development Fund accounts for the development of capital facilities for the industrial park.

The City reports the following major proprietary funds:

Water and Sewer Funds – The Water and Sewer Funds account for the activities of the water distribution system and sewage collection system. These funds are financed primarily by user charges.

Additionally, the City reports the following fund types:

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Internal Service Funds – Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Agency Funds – The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Nonmajor Governmental Funds – Nonmajor governmental funds consist of miscellaneous Debt Service Funds and Capital Projects Funds. Debt Service Funds are used to account for the annual payment of principal interest and expenses in connection with certain long-term debt. Capital Projects Funds are used to account for the development of capital facilities other than those financed by the operation of an Enterprise Fund.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Nonmajor Governmental Funds (Continued)

also recognize the portion of tap fees intended to recover current costs (e.g. labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 15, at which time penalties and interest are assessed. The final collection date is February 28, before they are added to the county tax rolls.

The City's 2005 tax is levied and collectible on July 1, 2004 and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the City totaled \$176 million (a portion of which is captured by the TIFA), on which taxes levied consisted of 11.59 mills for operating purposes, 4.15 mills for streets, and 3.0 mills for debt service. This resulted in \$1.947 million for operating, \$695,000 for streets, and \$513,000 for debt service. These amounts are recognized in the respective General, Special Revenue, and Sewer Funds financial statements as tax revenue.

In addition, 1.8582 mills is levied for the DDA and is recorded as tax revenue in the DDA.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity (Continued)

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from” other funds.” Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” All trade and property tax receivables are shown as net of an allowance for uncollectible amounts.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest. These amounts have been classified as restricted assets, as well as unspent fees charged by the City for improvements and expansions of the water and sewer systems.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was capitalized as part of the cost of assets under construction.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	15 to 20 years
Water and sewer distribution systems	50 to 75 years
Water and sewer buildings and improvements	40 to 50 years
Buildings and building improvements	40 to 50 years
Vehicles	3 to 5 years
Office furnishings	5 to 7 years
Other tools and equipment	3 to 7 years

Compensated Absences (Vacation and Sick Leave) – It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the live of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity (Continued)

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2: BUDGETARY INFORMATION

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds.

The budget document presents information by fund, function, department, and line items. The budget has been adopted based on total revenue and expenditures by fund; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

The annual budget is prepared by City management and adopted by the City Council approximately 30 days before the beginning of the fiscal year. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least one week in advance by the clerk. Subsequent amendments are approved by the City Council if determined necessary. Unexpected appropriations lapse at year end; encumbrances are not included as expenditures. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The amount of encumbrances is not calculated as of June 30, 2005.

Excess of Expenditures in Budgeted Funds – The City did not have excess of total expenditures over the budget as adopted by the City.

NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Deficits – The City has accumulated a fund deficit of \$485,976 in the Industrial Park Development Fund and \$115,606 in the DDA.

The City is in the process of filing a plan with the Local Audit and Finance Division.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 4: DEPOSITS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounting of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has designated four banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The City of Gaylord, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Cash and Cash Equivalents	\$ 1,465,158	\$ 769,195	\$ 2,234,353	\$ 148,702
Restricted Assets	-	749,816	749,816	-
Total	<u>\$ 1,465,158</u>	<u>\$ 1,519,011</u>	<u>\$ 2,984,169</u>	<u>\$ 148,702</u>

The breakdown between deposits and investments for the City is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 3,151,168	\$ 148,702
Petty cash or cash on hand	300	-
Total	<u>\$ 3,151,468</u>	<u>\$ 148,702</u>

The bank balance of the City's deposits is \$3,151,168, of which \$184,743 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 4: DEPOSITS (CONTINUED)

The component unit deposits had a bank balance of \$148,702 of which \$100,483 was covered by federal depository insurance. The remainder was uninsured and uncollateralized.

NOTE 5: RECEIVABLES

Receivables as of year end for the City's individual major funds and the nonmajor, Internal Service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Special Assessments	Accounts	Inter- Governmental	Less Allowance for Uncollectibles	Net Receivable
General Fund	\$ -	\$ 150,000	\$ 127,956	\$ 60,000	\$ 217,956
Special Revenue					
Municipal Streets	-	-	70,922	-	70,922
Major Streets	-	-	223,999	-	223,999
Local Streets	-	-	13,385	-	13,385
Debt Service Funds:					
Hidden Valley	490,000	-	-	-	490,000
Old 27 South	631,551	-	-	-	631,551
DDA Streetscape	1,125,000	-	-	-	1,125,000
Edelweiss Shopping Center	933,100	-	-	-	933,100
Other Nonmajor govern- mental funds	<u>402,220</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>407,220</u>
Total governmental activity	3,581,871	155,000	436,262	60,000	4,113,133
Water	-	54,159	-	-	54,159
Sewer	<u>-</u>	<u>168,065</u>	<u>-</u>	<u>-</u>	<u>168,065</u>
Total business- type activities	<u>-</u>	<u>222,224</u>	<u>-</u>	<u>-</u>	<u>222,224</u>
Total primary Government	<u>3,581,871</u>	<u>400,244</u>	<u>436,262</u>	<u>60,000</u>	<u>4,335,357</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	<u>\$ 3,581,871</u>	<u>\$ 3,581,871</u>

CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE 6: CAPITAL ASSETS

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 31, 2004	Additions	Disposals	Balance June 30, 2005
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,502,540	\$ -	\$ -	\$ 1,502,540
Capital assets being depreciated:				
Roads & Sidewalks	10,564,345	779,727	-	11,344,072
Buildings & Improvements	1,742,084	-	-	1,742,084
Vehicles	921,406	124,811	-	1,046,217
Office Furnishings	250,000	-	-	250,000
Other tools & Equipment	644,060	28,046	25,190	646,916
Subtotal	14,121,895	932,584	25,190	15,029,289
Accumulated Depreciation:				
Roads & Sidewalks	3,381,938	533,359	-	3,915,297
Buildings & Improvements	323,392	52,021	-	375,413
Vehicles	654,344	113,681	-	768,025
Office Furnishings	187,500	25,000	-	212,500
Other tools & Equipment	516,013	68,069	23,147	560,935
Subtotal	5,063,187	792,130	23,147	5,832,170
Net capital assets being Depreciated	9,058,708	140,454	2,043	9,197,119
Net capital assets	<u>\$ 10,561,248</u>	<u>\$ 140,454</u>	<u>\$ 2,043</u>	<u>\$ 10,699,659</u>

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Business-Type Activities				
Capital assets not being depreciated-Land	\$ 414,080	\$ -	\$ -	\$ 414,080
Capital assets being depreciated:				
Water & sewer distribution systems	25,269,246	250,842	86,154	25,433,934
Buildings & building improvements	42,763	-	-	42,763
Other tools & equipment	515,629	33,193	-	548,822
Subtotal	25,827,638	284,035	86,154	26,025,519
Accumulated depreciation:				
Water & sewer distribution systems	5,885,497	605,242	16,251	6,474,488
Buildings & building improvements	41,465	228	-	41,693
Other tools & equipment	279,790	18,285	-	298,075
Subtotal	6,206,752	623,755	16,251	6,814,256
Net capital assets being depreciated	19,620,886	(339,720)	69,903	19,211,263
Net capital assets	<u>20,034,966</u>	<u>(339,720)</u>	<u>69,903</u>	<u>19,625,343</u>

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 6: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the City as follows:

Governmental activities:

General government	\$ 35,557
Public Works	552,950
Parks, Recreation and culture	39,093
Internal Service Fund depreciation is charged to the Various functions based on their usage of the asset	<u>164,530</u>
Total governmental activities	<u>\$ 792,130</u>

Business-type activities:

Water	\$ 64,083
Sewer	<u>559,672</u>
Total business-type activities	<u>\$ 623,755</u>

NOTE 7: INTERFUND RECEIVABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from Other Funds		
General Fund	Municipal Street Fund	\$ 20,000
	Hidden Valley Debt Service Fund	300
	Sewer Fund	6,891
	Water Enterprise Fund	50,550
	Other governmental funds	<u>4,964</u>
		82,705
Major Streets Special Revenue Fund	General Fund	19,910
Municipal Street Special Revenue Fund	General Fund	50,000
Local Street Special Revenue Fund	General Fund	7,475
Nonmajor governmental funds	General Fund	3,082
	Other Governmental Funds	<u>2,401</u>
	Total Governmental Activities	<u>165,573</u>
Water Enterprise Fund	Sewer Enterprise Fund	175,000
	General Fund	<u>225,000</u>
	Total Water Enterprise Fund	400,000
Sewer Enterprise Fund	Municipal Streets Fund	100,000
	Major Streets Fund	140,000
	General Fund	<u>5,000</u>
	Total Sewer Enterprise Fund	<u>245,000</u>
	Total Enterprise Funds	<u>645,000</u>

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 7: INTERFUND RECEIVABLES, AND TRANSFERS (CONTINUED)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal Service Fund	General Fund	30,000
	Industrial Park Capital Projects Fund	<u>490,976</u>
	Total Internal Service Fund	<u>520,976</u>
	Total	<u>\$ 1,331,549</u>

The balance due from the Industrial Park Capital Projects Fund resulted from loans made to finance a portion of the roads and related infrastructure in the Industrial Park. Loans will be repaid from revenue generated by lot sales in the Industrial Park. All other balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Water Enterprise Fund	\$ 96,338
	Local Streets Special Revenue Fund	100,000
	Edelweiss Debt Service Fund	63,970
	Other governmental funds	350
	Municipal Streets fund	<u>50,000</u>
	Total General Fund	310,658
Major Streets Special Revenue Fund	Act 175 Debt Service Fund	46,312
Industrial Park	Water	<u>33,388</u>
	Total Transfers from Governmental funds	390,358
Sewer Enterprise Fund	Municipal Street	30,000
Water Enterprise Fund	Municipal Street	<u>30,000</u>
	Total	<u>\$ 450,358</u>

The transfer from the General Fund to the Local Streets Fund represents the use of unrestricted resources to finance that program, in accordance with budgetary authorizations. The transfer from the Major Street Fund to the Act 175 Debt Service Fund represents movement of resources to be used to service the Major Streets Fund debt. The transfer from the Sewer Fund to the Industrial Park Capital Projects Fund was a direct contribution to finance a portion of the sewer infrastructure.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 8: LEASES

Capital Leases – The City has entered into a lease agreement as lessee for financing the purchase of a 2005 Ford Crown Victoria Police Car. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The related debt is recorded in long-term debt (see Note 9). The lease will mature as follows. The future minimum lease obligations and the net present value are as follows:

Fiscal year ending June 30, 2006	\$ 8,306
Fiscal year ending June 30, 2007	<u>8,306</u>
Total	16,612
Less amount representing interest	<u>(947)</u>
Present Value	<u>\$ 15,665</u>

NOTE 9: LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties which benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities				
General obligation bonds:				
1994 Tax Increment Financial bonds, payable in installments of \$25,000 through \$200,000, plus interest ranging from 5% to 8% through 2011	\$ 1,275,000	\$ (150,000)	\$ 1,125,000	\$ 150,000
2003 General Obligation Limited tax bonds, payable in installments of \$20,000 through \$75,000, plus interest at 3% to 5% through 2022	995,000	(20,000)	975,000	25,000
2001 Limited Tax Development Bonds, payable in installments of \$75,000 through \$125,000, plus interest ranging from 3.5% to 4.6% through 2010	675,000	(75,000)	600,000	75,000

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 9: LONG-TERM DEBT (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities (continued)				
2003 General Obligation Limited Tax Bonds, payable in installments of \$50,000 through \$75,000, plus interest at 2.0% to 3.1% through 2012	560,000	(50,000)	510,000	50,000
1990 Serial Bonds, payable in installments of \$10,000 to \$45,000, plus interest variable through 2005	45,000	(45,000)	-	-
Special assessment bonds:				
1996 Special Assessment Limited Tax Bonds payable in installments of \$25,000 through \$125,000, plus interest ranging from 4.5% to 5.5% through 2011	950,000	(125,000)	825,000	125,000
2003 Special Assessment Limited Tax Bonds, payable in installments of \$25,000 through \$75,000, plus interest ranging from 2.0% to 3.7% through 2017	930,000	(50,000)	880,000	75,000
1997 Special Assessment Limited Tax Bonds payable in installments of \$65,000 through \$75,000, plus interest at 6.5% through 2012	565,000	(75,000)	490,000	75,000
1997 Special Assessment Limited Tax Bonds, payable in installments of \$10,000 through \$15,000, plus interest at 8% through 2012	130,000	(15,000)	115,000	15,000
Capital leases (see Note 8)	<u>60,691</u>	<u>(45,026)</u>	<u>15,665</u>	<u>7,679</u>
Total governmental bonds and leases	6,185,691	(650,026)	5,535,665	597,679
Compensated absences	<u>229,923</u>	<u>11,838</u>	<u>241,761</u>	<u>-</u>
Total governmental activities	<u>\$ 6,415,614</u>	<u>\$ (638,188)</u>	<u>\$ 5,777,426</u>	<u>\$ 839,440</u>
Business-type Activities				
General obligation bonds – 1999 General Obligation Unlimited Tax Bond payable in installments of \$185,000 through \$600,000, plus interest ranging from 4% to 6% through 2020	\$ 6,350,000	\$ (225,000)	\$ 6,125,000	\$ 225,000
Revenue bonds – 1999 Revenue Bond payable in installments of \$60,000 through \$195,000, plus interest ranging from 4% to 6% through 2020	<u>2,150,000</u>	<u>(60,000)</u>	<u>2,090,000</u>	<u>85,000</u>
Total business-type bonds	8,500,000	(285,000)	8,215,000	310,000

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 9: LONG-TERM DEBT (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities (continued)				
Compensated absences	58,025	(3,986)	54,039	-
Total business-type activities	<u>\$ 8,558,025</u>	<u>\$ (288,986)</u>	<u>\$ 8,269,039</u>	<u>\$ 364,039</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 590,000	\$ 239,654	\$ 829,654	\$ 310,000	\$ 433,838	\$ 743,838
2007	615,000	210,859	825,859	340,000	416,468	756,468
2008	665,000	186,520	851,520	345,000	396,888	741,888
2009	665,000	156,118	821,118	350,000	376,963	726,963
2010	710,000	124,990	834,990	405,000	355,182	760,182
2011-2015	1,575,000	262,738	1,837,738	2,360,000	1,406,038	3,766,038
2016-2020	475,000	105,514	580,514	3,310,000	653,782	3,963,782
2021-2025	225,000	16,781	241,781	795,000	17,850	812,850
Total	<u>\$ 5,520,000</u>	<u>\$ 1,303,174</u>	<u>\$ 6,823,174</u>	<u>\$ 8,215,000</u>	<u>\$ 4,057,009</u>	<u>\$ 12,272,009</u>

NOTE 10: RESTRICTED INVESTMENTS

The balances of the restricted investment accounts are as follows:

	<u>Business-type Activities</u>
Improvement and replacement account	\$ 569,732
Bond reserve requirements	180,084
Total restricted investments	<u>\$ 749,816</u>

NOTE 11 RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for coverage of general claims, as well as for coverage of health claims, and participates in the Michigan Municipal League risk pool for claims related to workers' compensation insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local unites of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 12: DEFINED BENEFIT PENSION PLAN

Plan Description – The City participates in the Michigan Municipal Employees Retirement System, as agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and nonunion employee group. All full-time employees are eligible to participate in the plan. The City contributes the necessary amount to fund the actuarially determined benefits.

Annual Pension Cost – For the year ended June 30, 2005, the City's annual pension cost of \$238,836 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age actuarial cost method. Significant actuarial assumptions used include (1) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of any given year's variation from an 8 percent return over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year trend information is as follows:

	Fiscal Year Ended June 30,		
	2003	2004	2005
Annual pension costs (APC)	\$ 169,769	\$ 179,681	\$ 238,836
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 13: DEFINED CONTRIBUTIONS PENSION PLANS

In addition to the above defined benefit pension plan, the City also maintains two separate defined contribution plans as follows:

457 Plan

The City provides benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the City, the City contributes 3 percent of employees' base earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested after one year of service.

The City's total payroll during the year was \$1,696,654. The current year contribution was calculated based on covered payroll of \$1,659,338, resulting in an employer contribution of \$41,817 and employee contributions of \$102,500.

401 Plan

The City provides pension benefits to several people in the form of a 401 Plan only. As established by the City, the City contributes a percentage of the employees base earnings. The current year contribution was calculated based on covered payroll of \$116,151, resulting in an employer contribution of \$25,583 and no employee contribution.

NOTE 14: OTHER POSTEMPLOYMENT BENEFITS

The City provides health care benefits to retirees in accordance with a postemployment benefit plan for all employees effective November 1996. Currently, six retirees are eligible. The City pays \$205 of the monthly premium and the retiree pays the balance. The City pays 50 percent of the health care premiums for three retired employees who are not covered under the plan described above. Expenditures for postemployment health care benefits are recognized annually as the insurance premiums become due. These benefits totaled \$25,672 during the year ended June 30, 2005.

**CITY OF GAYLORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE 14: OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Upcoming Reporting Change – The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other postemployment benefits (other than pensions)". The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

NOTE 15: CONTINGENCIES AND SUBSEQUENT EVENTS

Contingency

The Otsego County Memorial Hospital has issued \$4.4 million in bonds via a vehicle called the Gaylord Hospital Finance Authority. The incorporating unit creating the Authority is the City of Gaylord. According to the City's Bond Counsel, the City would act as a conduit entity whereby the Hospital would attain the Funds with a lower "Tax-Free" interest rate. The bonds are backed by the Hospital, not the City. Bond Counsel concludes there is no risk to the City.

Subsequent Event

On November 1, 2005 the City refinanced approximately \$5,000,000 in Wasterwater System General Obligation Unlimited Tax Bonds maturing the years 2009 through 2020.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUES:				
Taxes				
Real Property	\$ 1,948,000	\$ 1,948,000	\$ 1,939,348	\$ (8,652)
Penalties	-	-	7,859	7,859
Total	1,948,000	1,948,000	1,947,207	(793)
Licenses and Permits				
Business Licenses & Permits	1,500	1,500	2,030	530
Sign Permits	300	300	110	(190)
Total	1,800	1,800	2,140	340
Intergovernmental Revenue				
Sales and use tax	336,137	336,137	338,230	2,093
Shared Liquor License	12,225	12,225	12,138	(87)
Total	348,362	348,362	350,368	2,006
Cemetery				
Foundations	4,000	4,000	2,167	(1,833)
Grave Openings	8,300	8,300	7,150	(1,150)
Lot Care	1,500	1,500	1,150	(350)
Lot Sales	8,000	8,000	8,070	70
Interest - perpetual care inves	-	-	-	-
Total	21,800	21,800	18,537	(3,263)
Police				
Federal COPS grant	1,000	1,000	3,035	2,035
Court Costs	19,000	19,000	14,087	(4,913)
Special narcotics division	5,500	5,500	1,679	(3,821)
Total	25,500	25,500	18,801	(6,699)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Parking System				
Meter revenue	14,600	14,600	33,873	19,273
Parking Lot Permit Fees	8,500	8,500	8,269	(231)
Parking Meter Fines	3,800	3,800	2,842	(958)
Parking Violation Fines	6,000	6,000	5,617	(383)
Total	32,900	32,900	50,601	17,701
Other Revenue				
Interest income	8,700	8,700	13,897	5,197
Sale of industrial park land	70,000	70,000	-	(70,000)
Other Revenue	954,730	954,730	97,667	(857,063)
Royalties/Sale	10,000	10,000	15,797	5,797
Total	1,043,430	1,043,430	127,361	(916,069)
Total Revenue	3,421,792	3,421,792	2,515,015	(906,777)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
EXPENDITURES:				
General Government:				
City Council				
Salaries	9,800	9,800	10,125	(325)
Fringe Benefits	24,953	24,953	28,244	(3,291)
Office Supplies	300	300	123	177
Expenses & Education	7,000	7,000	11,395	(4,395)
Publishing	3,500	3,500	5,576	(2,076)
New Equipment	150	150	-	150
Total	45,703	45,703	55,463	(9,760)
City Manager				
Salaries	25,879	25,879	24,561	1,318
Fringe Benefits	12,940	12,940	12,373	567
Office Supplies	300	300	167	133
Telephone Expense	1,545	1,545	1,049	496
Expenses & Education	7,500	7,500	8,856	(1,356)
Miscellaneous	50	50	-	50
New Equipment	150	150	-	150
Total	48,364	48,364	47,006	1,358
Election Board				
Salaries	7,210	7,210	9,876	(2,666)
Fringe Benefits	1,500	1,500	1,278	222
Office Supplies	500	500	673	(173)
Publishing	250	250	-	250
Miscellaneous	2,000	2,000	1,139	861
Total	11,460	11,460	12,966	(1,506)
Audit				
Accounting	10,000	10,000	14,051	(4,051)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Assessor				
Salaries	-	-	-	-
Fringe Benefits	20,873	20,873	21,107	(234)
Office Supplies	1,545	1,545	249	1,296
Contractual Services	41,746	41,746	42,946	(1,200)
Expenses & Education	2,575	2,575	2,159	416
Miscellaneous	2,575	2,575	2,278	297
New Equipment	1,500	1,500	-	1,500
Total	70,814	70,814	68,739	2,075
Attorney				
Contractual Services	30,000	30,000	30,489	(489)
Clerk				
Salaries	30,498	30,498	27,905	2,593
Fringe Benefits	12,199	12,199	8,399	3,800
Office Supplies	350	350	406	(56)
Telephone Expense	1,545	1,545	1,049	496
Expenses & Education	1,000	1,000	1,731	(731)
Equipment Rental	9,000	9,000	-	9,000
Miscellaneous	250	250	-	250
Total	54,842	54,842	39,490	15,352
Board of Review				
Salaries	1,800	1,800	1,379	421
Publishing	50	50	-	50
Miscellaneous	200	200	262	(62)
Total	2,050	2,050	1,641	409
Administrative Supplies				
Office Supplies	24,000	24,000	22,644	1,356

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
City Treasurer				
Salaries	14,008	14,008	13,788	220
Fringe Benefits	5,603	5,603	4,892	711
Office Supplies	3,000	3,000	1,895	1,105
Telephone Expense	2,400	2,400	1,049	1,351
Expenses & Education	2,750	2,750	1,694	1,056
Miscellaneous	5,000	5,000	2,278	2,722
New Equipment	500	500	-	500
Total	33,261	33,261	25,596	7,665
City Hall and Grounds				
Salaries	6,000	6,000	6,197	(197)
Fringe Benefits	2,100	2,100	2,020	80
Building Maintenance	37,575	37,575	30,977	6,598
Total	45,675	45,675	39,194	6,481
Other City Property				
Salaries	35,000	35,000	30,563	4,437
Fringe Benefits	17,500	17,500	12,276	5,224
Materials	2,000	2,000	9,708	(7,708)
Contractual Services	35,000	35,000	54,336	(19,336)
Telephone Expense	475	475	384	91
Utilities	11,500	11,500	9,968	1,532
Equipment Rental	30,000	30,000	20,637	9,363
Miscellaneous	1,000	1,000	50	950
Total	132,475	132,475	137,922	(5,447)
Cemetery				
Salaries	33,180	33,180	37,461	(4,281)
Fringe Benefits	8,295	8,295	9,439	(1,144)
Operating Supplies	5,000	5,000	1,929	3,071
Building Maintenance	-	-	-	-
Contractual Services	20,000	20,000	15,271	4,729
Electric Utility	3,900	3,900	3,192	708
Equipment Rental	31,000	31,000	28,279	2,721
Total	101,375	101,375	95,571	5,804

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Planning Commission				
Salaries	2,500	2,500	2,760	(260)
Fringe Benefits	250	250	255	(5)
Office Supplies	100	100	-	100
Contractual Services	3,500	3,500	4,921	(1,421)
Expenses & Education	450	450	78	372
Publishing	300	300	(15)	315
Total	7,100	7,100	7,999	(899)
Zoning Board				
Salaries	1,800	1,800	520	1,280
Fringe Benefits	180	180	49	131
Office Supplies	100	100	-	100
Expenses & Education	500	500	-	500
Publishing	500	500	(471)	971
Total	3,080	3,080	98	2,982
Insurance and Bonds				
Employee Bonds	300	300	334	(34)
Liability Insurance	27,552	27,552	31,392	(3,840)
Workmen's Compensation	-	-	(4,408)	4,408
Total	27,852	27,852	27,318	534
General Administration				
Salaries	36,050	36,050	37,162	(1,112)
Fringe Benefits	14,420	14,420	13,888	532
Office Supplies	500	500	198	302
Expenses & Education	1,545	1,545	1,639	(94)
Miscellaneous	200	200	-	200
New Equipment	-	-	-	-
Total	52,715	52,715	52,887	(172)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Health Insurance				
Health Insurance	36,000	36,000	27,052	8,948
Community Promotion				
Fringe Benefits	4,000	4,000	10,130	(6,130)
Alpenfest	12,500	12,500	10,425	2,075
Christmas Decorations	1,000	1,000	1,533	(533)
Safety Award Banquet	4,000	4,000	1,893	2,107
Spring Clean-Up	33,000	33,000	36,610	(3,610)
Municipal League Dues	4,000	4,000	-	4,000
Employee Christmas Gifts	2,500	2,500	2,081	419
Miscellaneous & Elk	30,900	30,900	37,309	(6,409)
Fall Leaf Pick-Up	23,175	23,175	19,938	3,237
Gus Macker	6,695	6,695	3,054	3,641
Tree Commission & Beautificat	5,000	5,000	4,127	873
DDA Promotional	5,000	5,000	-	5,000
Civic Betterment	2,000	2,000	4,670	(2,670)
Economic Development Cord.	25,000	25,000	25,000	-
Electric Utility	3,000	3,000	2,025	975
Civic Cont.-Hist Soc/MTEK	500	500	5,500	(5,000)
Total	162,270	162,270	164,295	(2,025)
Total General Government	899,036	899,036	870,421	28,615
Public Safety:				
City Police				
Salaries	562,785	562,785	599,830	(37,045)
Fringe Benefits	247,625	247,625	271,950	(24,325)
Office Supplies	5,500	5,500	6,206	(706)
Investigative Supplies	-	-	396	(396)
Operating Supplies	5,750	5,750	8,617	(2,867)
Cleaning Allowance	6,000	6,000	8,259	(2,259)
Auxiliary Police	-	-	-	-
Legal Fees	30,000	30,000	8,456	21,544
Telephone Expense	6,275	6,275	6,818	(543)
Crime Prevention	1,500	1,500	333	1,167

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Publishing	-	-	22	(22)
Outside Maintenance	-	-	70	(70)
Equipment Rental	69,500	69,500	-	69,500
Miscellaneous	6,200	6,200	9,035	(2,835)
Justice Training Fund Expense	9,500	9,500	4,866	4,634
Prisoner Transport	300	300	14	286
New Equipment	2,000	2,000	134	1,866
Total	952,935	952,935	925,006	27,929
Fire Services				
Contractual Services	64,501	64,501	64,500	1
Hydrant Rental	23,000	23,000	-	23,000
Total	87,501	87,501	64,500	23,001
Total Public Safety	1,040,436	1,040,436	989,506	50,930
Public Works:				
Public Works Department				
Salaries	105,000	105,000	113,120	(8,120)
Fringe Benefits	47,250	47,250	66,220	(18,970)
Office Supplies	1,000	1,000	602	398
Operating Supplies	2,500	2,500	2,187	313
Uniforms	3,000	3,000	2,310	690
Materials	18,200	18,200	8,236	9,964
Contractual Services	8,000	8,000	10,800	(2,800)
Telephone Expense	2,050	2,050	1,622	428
Expenses & Education	500	500	40	460
Electric Utility	16,000	16,000	14,448	1,552
Equipment Rental	4,500	4,500	1,368	3,132
Miscellaneous	4,500	4,500	884	3,616
New Construction	100	100	110	(10)
Total	212,600	212,600	221,947	(9,347)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Sidewalks				
Salaries	4,600	4,600	3,746	854
Fringe Benefits	1,840	1,840	1,038	802
Operating Supplies	-	-	-	-
Materials	500	500	132	368
Contractual Services	2,500	2,500	8,993	(6,493)
Equipment Rental	18,000	18,000	10,550	7,450
Miscellaneous	-	-	-	-
Total	27,440	27,440	24,459	2,981
DDA				
Salaries	50,000	50,000	23,178	26,822
Fringe Benefits	12,500	12,500	7,064	5,436
Materials	12,000	12,000	4,847	7,153
Equipment Rental	20,000	20,000	6,339	13,661
Miscellaneous	250	250	-	250
Total	94,750	94,750	41,428	53,322
Pavillion on Court				
Salaries	500	500	3,187	(2,687)
Fringe Benefits	250	250	1,211	(961)
Materials	500	500	-	500
Contractual Services	-	-	575	(575)
Equipment Rental	250	250	514	(264)
Miscellaneous	250	250	56	194
Total	1,750	1,750	5,543	(3,793)

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Street Lights				
Salaries	3,500	3,500	2,460	1,040
Fringe Benefits	1,820	1,820	1,041	779
Materials	500	500	895	(395)
Contractual Services	1,000	1,000	-	1,000
Street Lighting	60,000	60,000	56,876	3,124
Equipment Rental	1,500	1,500	827	673
Total	68,320	68,320	62,099	6,221
Parking				
Salaries	20,703	20,703	18,904	1,799
Fringe Benefits	10,766	10,766	8,226	2,540
Materials	1,000	1,000	620	380
Contractual Services	-	-	4,298	(4,298)
Equipment Rental	35,000	35,000	27,088	7,912
Total	67,469	67,469	59,136	8,333
Total Public Works	472,329	472,329	414,612	57,717
Parks and Recreation				
Salaries	12,000	12,000	11,668	332
Fringe Benefits	5,400	5,400	6,038	(638)
Operating Supplies	3,000	3,000	4,157	(1,157)
Materials	2,500	2,500	210	2,290
Contractual Services	2,000	2,000	2,281	(281)
Electric Utility	3,500	3,500	2,668	832
Equipment Rental	5,000	5,000	4,956	44
Park Improvements	966,481	966,481	94,313	872,168
Contractual Services	-	-	26,966	(26,966)
Total Parks and Recreation	999,881	999,881	153,257	846,624

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
Total Expenditures	<u>3,411,682</u>	<u>3,411,682</u>	<u>2,427,796</u>	<u>983,886</u>
Other Financing Sources				
Contributions from other funds	120,816	120,816	108,007	(12,809)
Contribution to Other Funds	<u>(352,338)</u>	<u>(352,338)</u>	<u>(310,658)</u>	<u>(41,680)</u>
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	(221,412)	(221,412)	(115,432)	105,980
FUND BALANCE - JULY 1	<u>1,022,664</u>	<u>1,022,664</u>	<u>1,022,664</u>	<u>-</u>
FUND BALANCE - JUNE 30	<u>\$ 801,252</u>	<u>\$ 801,252</u>	<u>\$ 907,232</u>	<u>\$ 105,980</u>

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREET FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUE				
Intergovernmental:				
Gas & Weight Tax	\$ 230,000	\$ 230,000	\$ 187,597	\$ (42,403)
Trunkline Maintenance	108,725	108,725	302,658	193,933
Other state shared revenue	100,700	100,700	7,284	(93,416)
	-	-	-	-
Total Revenue	439,425	439,425	497,539	58,114
EXPENDITURES				
Major Streets				
Construction	147,760	197,760	197,755	5
Routine maintenance	50,368	50,368	43,783	6,585
Traffic maintenance	20,229	20,229	25,732	(5,503)
Winter maintenance	88,144	88,144	63,504	24,640
Administration	33,682	33,682	30,802	2,880
Total Major Streets	340,183	390,183	361,576	28,607
Trunkline Maintenance				
Routine maintenance	4,500	4,500	3,949	551
Sweeping	5,500	5,500	7,377	(1,877)
Shoulder maintenance	290	290	7	283
Drainage	1,000	1,000	5,324	(4,324)
Trunkline Leave/Overhead	13,535	13,535	-	13,535
Traffic signs	4,700	4,700	370	4,330
Winter maintenance	75,000	75,000	70,473	4,527
Snow hauling	8,200	8,200	1,035	7,165
Total Trunkline Maint.	112,725	112,725	88,535	24,190
Total Expenditures	452,908	502,908	450,111	52,797
Excess (deficiency) of revenue over expenditures	(13,483)	(63,483)	47,428	110,911
OTHER FINANCING SOURCES				
Contributions from other funds	20,000	20,000	-	(20,000)
Contributions to Other Funds	(47,975)	(47,975)	(46,312)	1,663
	27,975	27,975	46,312	(18,337)
Excess (deficiency) of revenue and other financing sources over expenditures	(41,458)	(91,458)	1,116	92,574
FUND BALANCE - JULY 1	100,747	100,747	100,747	-
FUND BALANCE - JUNE 30	\$ 59,289	\$ 9,289	\$ 101,863	\$ 92,574

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
LOCAL STREET FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUE				
Intergovernmental				
Gas & Weight Tax	\$ 96,766	\$ 96,766	\$ 79,404	\$ (17,362)
Other state shared revenue	2,000	2,000	2,676	676
Miscellaneous	-	-	-	-
Total Revenue	98,766	98,766	82,080	16,686
EXPENDITURES				
Storm sewer construction	2,660	2,660	2,235	425
Routine maintenance	59,616	59,616	54,141	5,475
Traffic services	9,824	9,824	5,626	4,198
Winter maintenance	91,258	91,258	75,675	15,583
Administration	33,525	33,525	30,839	2,686
Total Expenditures	196,883	196,883	168,516	28,367
Excess (deficiency) of revenue over expenditures	(98,117)	(98,117)	(86,436)	11,681
OTHER FINANCING SOURCES				
Contributions from other funds	100,000	100,000	100,000	-
Excess (deficiency) of revenue and other financing sources over expenditures	1,883	1,883	13,564	11,681
FUND BALANCE - JULY 1	8,701	8,701	8,701	-
FUND BALANCE - JUNE 30	\$ 10,584	\$ 10,584	\$ 22,265	\$ 11,681

CITY OF GAYLORD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
MUNICIPAL STREET FUND
YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET (UNFAVORABLE)
REVENUE				
Property taxes	\$ 695,000	\$ 695,000	\$ 695,021	\$ 21
Interest	-	-	-	-
Total Revenue	695,000	695,000	695,021	21
EXPENDITURES				
Highways and streets	757,331	850,000	752,189	97,811
Excess of Revenue over Expenditures	(62,331)	(155,000)	(57,168)	(97,832)
OTHER FINANCING SOURCES				
Contributions from other funds	83,700	83,700	110,000	26,300
Excess (deficiency) of revenues and other financing sources over expenditures	21,369	(71,300)	52,832	124,132
FUND BALANCE - JULY 1	(51,142)	(51,142)	(51,142)	-
FUND BALANCE - JUNE 30	<u>\$ (29,773)</u>	<u>\$ (122,442)</u>	<u>\$ 1,690</u>	<u>\$ 124,132</u>

**CITY OF GAYLORD
REQUIRED SUPPLEMENTAL INFORMATION
PENSION SYSTEM SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2005**

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAA (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<u>General Employees' Retirement System</u>						
12/31/99	3,105,967	3,467,125	361,158	90%	1,123,021	32%
12/31/00	3,464,029	4,024,126	560,097	86%	1,219,683	46%
12/31/01	3,744,764	4,504,543	759,779	83%	1,239,318	61%
12/31/02	3,855,330	4,988,140	1,132,810	77%	1,317,644	86%
12/31/03	4,155,365	5,431,787	1,276,422	77%	1,424,335	90%
12/31/04	4,228,871	5,928,143	1,699,272	71%	1,480,448	115%

The schedule of employer contributions is as follows:

General Employees' Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution*</u>	<u>Percentage Contributed</u>
06/30/99	12/31/96	\$ 97,783	100.0
06/30/00	12/31/97	142,708	100.0
06/30/01	12/31/98	158,420	100.0
06/30/02	12/31/99	169,769	100.0
06/30/03	12/31/00	159,495	100.0
06/30/04	12/31/01	179,681	100.0
06/30/05	12/31/02	238,836	100.0

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated.
Additional information as of December 31, 2001, is as follows:

General Employees' Retirement System

Actual cost method	Entry age
Amortization	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5% - 8.66%
* Includes inflation at	4.5%
Cost of living adjustments	None

OTHER SUPPLEMENTAL INFORMATION

**CITY OF GAYLORD
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005**

	Debt Service Funds		
	Edelweiss	Mankowski Rd	Pavillion Debt
ASSETS			
Cash & Equivalents	\$ -	\$ 45,854	\$ 25
Accounts Receivables	-	23,020	379,200
Inventories	-	-	-
Due From Other Funds	-	-	-
Total Assets	-	68,874	379,225
LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts Payable	-	-	-
Due to Other Funds	-	-	7,365
Deferred Revenue	-	23,020	379,200
Total Liabilities	-	23,020	386,565
Fund Equity			
Fund Balance (Deficit)			
Debt Service	-	45,854	(7,340)
Capital Projects	-	-	-
Total Fund Equity	-	45,854	(7,340)
Total Liabilities and Fund Equity	\$ -	\$ 68,874	\$ 379,225

Capital Project Funds

<u>Act 175</u>	<u>IDC</u>	<u>Pavillion</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 45,879
-	5,000	-	407,220
-	-	-	-
-	-	5,483	5,483
-	5,000	5,483	458,582
-	-	-	-
-	490,976	-	498,341
-	-	-	402,220
-	490,976	-	900,561
-	-	-	38,514
-	(485,976)	5,483	(480,493)
-	(485,976)	5,483	(441,979)
\$ -	\$ 5,000	\$ 5,483	\$ 458,582

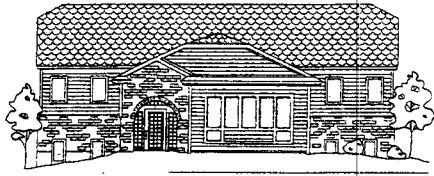
CITY OF GAYLORD
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE (DEFICIT)
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

Debt Service Funds

	<u>Edelweiss</u>	<u>Mankowski Rd</u>	<u>Pavillion Debt</u>	<u>Act 175</u>
Revenue:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-
State Shared / Intergovernmental	-	-	-	-
Cemetery	-	-	-	-
Interest Income	-	973	11	-
Police and Parking	-	-	-	-
Special Assessment Collections	-	4,444	-	-
Other Revenue	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenue	-	5,417	11	-
Expenditures:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Recreation & Culture	-	-	-	-
Debt Service	63,970	40,069	104,588	46,312
Capital Outlay	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	63,970	40,069	104,588	46,312
Other Financing Sources (Uses):				
Contributions from Other Funds	63,970	-	91,679	46,312
Contributions to Other Funds	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(63,970)	-	(91,679)	(46,312)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Fund Balances	-	(34,652)	(12,898)	-
Fund Balance - July 1	-	80,506	5,558	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - June 30	\$ -	\$ 45,854	\$ (7,340)	\$ -
	<hr/>	<hr/>	<hr/>	<hr/>

Capital Project Funds

IDC	Pavillion	Total
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
628	-	1,612
-	-	-
-	-	4,444
5,000	-	5,000
5,628	-	11,056
-	-	-
-	-	-
-	-	-
(43,537)	-	254,939
		(43,537)
(43,537)	-	211,402
-	-	-
(33,388)	-	201,961
		(33,388)
33,388	-	(168,573)
15,777	-	(31,773)
(501,753)	5,483	(410,206)
\$ (485,976)	\$ 5,483	\$ (441,979)



Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.
Jeffrey B. Cook, C.P.A.
Richard W. Miller, C.P.A.
Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

November 16, 2005

To the City Council
City of Gaylord
225 W. Main Street
Gaylord, MI 49735

RECEIVED
DEPT. OF TREASURY

MAY 22 2006

LOCAL AUDIT & FINANCE DIV.

We have audited the financial statements of the City of Gaylord for the year ended June 30, 2005, and have issued our report thereon dated November 16, 2005. Professional standards required that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 27, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Gaylord. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about the past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

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Management's estimate of the allowance for doubtful accounts is based on the historical average of previous fiscal years. We evaluated the key factors and assumption used to develop the historical uncollectible rate in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). In our opinion, none of the adjustments we proposed, whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issued Discussed Prior to Retention of Independent Auditors

We discussed a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the City's auditors. However, these discussions occurred in the normal course of the professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Comments and Recommendations

The Downtown Development Authority and the IDC fund have deficits in violation of Michigan statutes. We understand the DDA will likely erase the deficit during the

current year, and the IDC will reduce its deficit upon the sale of property in the Park. These plans to eliminate the deficits appear reasonable and no other recommendation is required.

The DDA owes other funds in the City over \$260,000. Some of this amount is over three years old. We recommend the DDA repay the other funds as soon as it is able and stay current with its bills in the future.

It was noted that the component unit's books and records were not available during our scheduled fieldwork. This resulted in delays and difficulty in completing the audit. Auditors are required to plan and organize the audit prior to fieldwork commencing. This requires the auditor to have access to all trial balances, minutes, contracts and subsidiary ledgers prior to actual fieldwork dates.

To assist the audit process and prevent unnecessary delays all books and records of the City and its components should be available as soon as possible after year end.

In our review of property tax collections it was noted that there are significant receivables of personal property tax from prior years that had not been collected. It also was apparent that proper procedures were not used to initiate collections and protect City and other taxing authority revenue. Demand for immediate payment and/or property seizure are proper methods of collection and we found no evidence to indicate that all possible avenues of collection were followed.

It is imperative that delinquent personal property taxes be collected as soon as possible, since the collection of those taxes is put in jeopardy when delays occur.

We were assured that current procedures had been implemented to initiate collection of all prior delinquent personal property tax amounts. Procedures should also be implemented to write off uncollectable tax amounts. A statement of the amounts and names of the taxpayers should be filed with the circuit court indicating the uncollected amounts and ask that a judgement be rendered to remove them from the tax roll.

During our audit we noted the City uses approximately 35 funds in its general ledger. We believe some of these funds maybe closed, combined with other funds, or eliminated so as to make the accounting more efficient. We hope to assist the clerk and treasurer in "remodeling" the ledger to accomplish this. We also propose to visit the clerk and treasurer periodically during the year to do preliminary audit work and assist them in a timely manner rather than waiting until the end of the year.

This information is intended solely for the use of the City Council and management of the City of Gaylord and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


Keskine, Cook, Miller & Alexander, LLP